

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

FIRST-CLASS MAIL AND PERIODICALS
SERVICE STANDARD CHANGES, 2021

Docket No. N2021-1

**NOTICE OF THE UNITED STATES POSTAL SERVICE OF FILING AN ERRATUM TO
THE RESPONSE OF THE UNITED STATES POSTAL SERVICE TO QUESTION 7 OF
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**
(June 3, 2021)

The United States Postal Service hereby provides notice of the filing of an erratum to the response of institutional witness Sharon Owens to Question 7 of Presiding Officer's Information Request No. 3, filed on May 26, 2021. The original response incorrectly separated the words "For FY 2022," from the beginning of the final paragraph of the response. A revised response is attached; the substance of the response is otherwise unchanged. Library Reference LR-N2021-1-26 has not changed, and no revised version of the library reference is being filed.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**RESPONSE OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS
OWENS (REDIRECTED FROM WITNESS WHITEMAN) TO PRESIDING OFFICER'S
INFORMATION REQUEST NO. 3 (Revised June 3, 2021)**

Question 7. Please refer to Response to POIR No. 1, question 15. Please provide a detailed calculation of each step referenced in the response, with documentation, links and sources for the FY 2021 projections of air costs and surface costs for First- Class Mail and Periodicals for each amount listed in the table titled "Projected Transportation Costs by Mode for FY 2021 for First-Class Mail and Periodicals". Please provide a similar table with the same documentation for FY 2022, the first full year of implementation.

RESPONSE:

The requested documentation, by step, and sources are provided in the zip file named ***N2021.1.Response.POIR.No3.Q7***, which is being filed within Library Reference LR-N2021-1-26 in this docket to accompany this response. The workbook named ***N2021.1Response.POIR.No3.Q7.FY2021*** contains a separate tab for each of the six steps that were described in the response to POIR No 1, question 15.

At the time that the response was filed to POIR No. 1, question 15, similar projections for FY 2022 had not been considered. In response to this request, a similar, but not identical approach to estimating FY 2022 air and surface costs for First-Class Mail and Periodicals were developed. Two primary factors led to the underlying estimation method being changed for FY 2022: 1) transportation costs are projected for the entire fiscal year and 2) impact of the service standard change needed to be considered because implementation would be expected to occur during FY 2022.

In the accompanying zip file within the library reference, the workbook named ***N2021.1.Response.POIR.No3.Q7.FY2022*** develops and documents the estimation method used. While there are similarities to the method used in FY 2021, there are enough differences that a detailed explanation of the seven-step process used to develop the requested estimates is warranted.

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One, a range of air and surface volume variable costs for FY 2022 was calculated by applying FY 2020 air and surface volume variabilities to FY 2022 estimated air and surface costs that account for the service standard change. In response to POIR No. 1, Q24, witness Hagenstein (USPS-T-3) provided a range of transportation savings between \$175 million and \$279 million for FY 2022. The ranges were applied in the same relative amounts as the air and surface savings were estimated (\$196.1 M, 70% air; \$83.5 M, 30% surface) in the testimony of witness Whiteman at 10-13. The savings ranges were subtracted from the FY 2022 projected air and surface transportation costs that did not account for the service standard change. The result of this arithmetic was a range of total air and surface costs for FY 2022 that accounted for the change in service standards. Lastly, the air and surface volume variabilities from FY 2020 were multiplied by the range of total air and surface costs to compute a range of volume variable air and surface costs for FY 2022.

Two, FY 2020 distribution keys for Air, Inter-SCF, and Other Surface were developed for First-Class Mail, Periodicals, and All Other using the transportation cost model filed in Docket No. ACR2020, USPS-FY20-32, workbook CS14-Public-FY20.

Three, product weights from the Q1 and Q2 FY 2021 Revenue Pieces and Weight (RPW) report were used to compute ratios by product that adjusted the Air, Inter-SCF, and Other Surface distribution factors from FY 2020. For FY 2022, the ratio based on RPW weights for product p was the following:

$$Ratio_{pFY22} = \left(\frac{\%RPWWeight_{pt=Q2YTFY21}}{\%RPWWeight_{pt=Q2YTFY20}} \right)^2$$

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For FY 2021, similar ratios were used, but, for FY 2022, to account for another year of changing mail mix, each product ratio was applied a second time (i.e., the product ratio was squared).

Four, the product ratio from step three was applied to the Air, Inter-SCF, and Other Surface distribution keys from FY 2020. This results in sets of distribution factors that do not add to unity. Hence, the distribution factors were rescaled by taking the ratio of the unscaled key to the composite amount (rescaling was not done for FY 2021, its impact is small but more meaningful in FY 2022).

Five, the scaled distribution keys for First-Class Mail from step 4 were multiplied by the expected air to surface impacts resulting from the service standard change. Hence, the First-Class Mail air distribution factors were multiplied by 0.507 (see Whiteman testimony at 10, $1 - 0.493 = 0.507$) and the First-Class Inter-SCF distribution factors were multiplied by 1.114 (see Hagenstein testimony at 6, $88\% / 79\% = 1.114$). There were no changes made to the distribution keys for Periodicals or for those related to the Other Surface mode. The resulting distribution factors were rescaled by, again, taking the ratio of the unscaled key to the composite amount.

Six, a cost weighted unscaled distribution key was computed using the Inter-SCF and Other Surface distribution keys and costs. Subsequently, the unscaled surface distribution key was scaled so it would add to unity. No changes were made to the air distribution keys with this step.

Seven, the air and surface distribution keys from step six were multiplied by the estimated ranges of air and surface volume variable costs from step one to compute a range of air and surface costs for products within First-Class Mail and Periodicals.

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Lastly, the ranges of volume variable air and surface costs were summed by class to develop the estimated ranges of air and surface costs for First-Class and Periodicals.

For FY 2022, this seven step process resulted in estimated air and surface costs for First-Class Mail ranging from \$182 million to \$186 million and \$518 million to \$521 million respectively. For Periodicals, the corresponding air and surface ranges were \$7 million to \$8 million and \$93 million to \$94 million respectively. The table contains the air and surface ranges of volume variable costs for First-Class Mail and Periodicals for FY 2022.

Projected FY 2022 Air and Surface Volume Variable Costs for First-Class Mail and Periodicals

FY 2022 Projected Costs	Low Air (\$m)	High Air (\$m)	Low Surface (\$m)	High Surface (\$m)
First-Class	\$ 181.6	\$ 186.1	\$ 517.6	\$ 521.0
Periodicals	\$ 7.3	\$ 7.5	\$ 93.3	\$ 93.9